# Total Ownership Costs (System Level)

- DoD Total Ownership Costs
- Defense System Total Ownership Costs

# Total Ownership Costs (TOC)

- DoD TOC is the **sum of all financial resources necessary to organize, equip, train, sustain, and operate military forces sufficient to meet national goals** in compliance with all laws, all policies applicable to DoD, all standards in effect for readiness, safety, and quality of life, and all other official measures of performance for DoD and its Components. DoD TOC is comprised of
  - Costs to research, develop, acquire, own, operate, and dispose of weapon and support systems, other equipment and real property
  - The costs to recruit, train, retain, separate and otherwise support military and civilian personnel, and
  - All other costs of business operations of the DoD

**Dr. Gansler's Memorandum, November 13, 1998, Subject: Definition of Total Ownership Cost (TOC), Life Cycle Cost (LCC), and the**

# DoD TOC

- **An initiative of the Defense Systems Affordability Council (DSAC)**
- **Senior Acquisition Executives are required to establish TOC reduction goals, determine top cost drivers, consider product/process reengineering, etc.**

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# Total Ownership Costs (TOC)

***Defense Systems TOC* = *Life Cycle Cost (LCC)***

- **Life Cycle Cost (LCC)** includes ALL WBS elements; ALL affected appropriations; and encompasses the costs, both contractor and in house effort, as well as existing assets to be used, for all cost categories. It is the **TOTAL cost to the Government for a program over its full life**, and includes the cost of research and development, investment in mission and support equipment (hardware and software), initial inventories, training, data, facilities, etc., and the operating, support, and, where applicable, demilitarization, detoxification, or long term waste storage. (DoD 5000.4-M)

# Defense Systems TOC

- Program managers' primary focus
- Program managers' responsible for the continuous reduction of LCC for their systems
- Every program manager should work in close cooperation with all appropriate LCC-related activities and organizations to vigorously attack these costs

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# Total Ownership Costs

- **DoD Integrated Product and Process Development Handbook (IPPD), August 1998**
  - The acquisition strategy for the program includes activities that focus on identifying **risk** and **risk-handling options** and the development of **life-cycle cost** (LCC), or **total ownership cost** (TOC) objectives. It also includes development of an **integrated logistics support** approach that enhances the overall value of the delivered product.

**CAIV/Tradeoff Study/Cost Objective Examples from the DoD Integrated Product and Process Development Handbook; August 1998**

# Total Ownership Costs Program Examples

- **Space Based Infrared Systems**
  - A customer-led IPT for the Space Based Infrared System (SBIRS) identified the major cost drivers. A cost target was set in the ORD and Concept Validation RFP. The customer and industry were involved in requirements, cost, and performance tradeoff studies to develop a set of affordable and achievable key requirements and set the KPPs. For Engineering and Manufacturing Development (EMD), aggressive cost targets were part of source selection. **Contractor trades (with government access) will be conducted to minimize Total Ownership Cost (TOC).**

# Total Ownership Costs

- **Contractor Management Council**
  - Each CAO shall form a Management Council with each prime contractor under DCMC cognizance supporting ACAT I, IA, or II programs.
  - A fundamental Council objective is to identify and implement improvements to streamline the acquisition process. This includes coordinating and integrating program audit and review activity and accepting SPI proposals and other ideas **that reduce <u>Total Ownership Costs</u> while maintaining performance based requirements. (DoD 5000.2R)**

# Total Ownership Costs (System Level)

- **DCMC Engineering Role**
  - Be aware of program/design areas that affect TOC
  - Ensure any contractor cost assumptions and cost models are validated; look for impacts to schedule and performance
  - Understand the impact of logistics decisions, design trades, and reliability and maintainability issues on life cycle and systems costs